

## Message Text

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PAGE 01 CARACA 02900 01 OF 02 291548Z  
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TO SECSTATE WASHDC 1734

UNCLAS SECTION 1 OF 2 CARACAS 2900

C O R R E C T E D C O P Y (SECTION INFO)

E.O. 11652: N/A  
TAGS: BEXP, VE  
SUBJ: MARKET POTENTIAL FOR INDUSTRIAL SEWING MACHINES

REF: STATE 062951

SUMMARY: VENEZUELA'S GARMENT INDUSTRY IS FRAGMENTED INTO HUNDREDS OF SMALL COMPANIES. LARGE-SCALE, HIGH-SPEED MANUFACTURING OPERATIONS ARE RARE. ALL INDUSTRIAL SEWING MACHINES ARE IMPORTED, WITH US SUPPLIERS HAVING A MAJOR MARKET HERE. OUTLOOK IS GOOD FOR MEDIUM-SIZED, FLEXIBLE MACHINES WHICH ARE NOT HIGHLY SOPHISTICATED. ANY REQUIRED MARKET RESEARCH ADDITIONAL TO THAT CONTAINED HEREIN WILL HAVE TO BE SECURED FROM CONTRACTOR. END SUMMARY.

1. VENEZUELA TO A LARGE DEGREE IS SELF-SUFFICIENT IN THE PRODUCTION OF MEN'S, WOMEN'S AND CHILDREN'S UNDER AND OUTERWEAR AND HAS BEEN FOR MANY YEARS. THE INDUSTRY IS PROTECTED BY A SYSTEM OF HIGH DUTIES WHICH RANGES UP TO 250 PERCENT AD VALOREM PLUS SPECIFIC WEIGHT DUTIES. IMPORTS OF GARMENTS ARE THEREFORE LIMITED IN VOLUME AND CONSIST MAINLY OF HIGH FASHION AND BOUTIQUE-STYLE ITEMS. THE GARMENT INDUSTRY CLAIMS THAT IMPORTS BY INDIVIDUALS RETURNING FROM TRAVEL ABROAD, THROUGH THE DUTY-FREE ISLAND OF MARGARITA, AND ILLEGAL IMPORTS ACROSS THE BORDER FROM COLOMBIA, CONSTITUTE ALMOST 40 PERCENT OF TOTAL CONSUMPTION AND SHOULD THEREFORE BE CURBED. WHILE THIS IS PROBABLY EXAGGERATED, THE TOTAL SALES VOLUME OF  
UNCLASSIFIED

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PAGE 02 CARACA 02900 01 OF 02 291548Z

MARGARITA IS HIGH AND DOES CONSTITUTE A FACTOR OF COMPETITION. CONTRABAND IMPORTS FROM COLOMBIA CONSIST MAINLY OF VERY LOW COST ITEMS NOT REALLY INTERESTING TO THE LOCAL INDUSTRY BECAUSE OF HIGH UNIT LABOR COSTS.

2. GARMENT INDUSTRY SOURCES AND SEWING MACHINE DISTRIBUTORS ESTIMATE THAT THERE ARE ROUGHLY 800 GARMENT MANUFACTURERS IN CARACAS

AND ABOUT 300 MORE IN THE REST OF VENEZUELA. NO ESTIMATES ARE READILY AVAILABLE ON LABOR FORCE AND TOTAL INVESTMENT. MACHINERY DEALERS VARY IN THEIR ESTIMATES AS TO THE NUMBER OF INDUSTRIAL SEWING MACHINES IN THE COUNTRY BUT THE MODAL ESTIMATES IS AROUND 55,000 UNITS. GARMENT MANUFACTURERS VARY IN SIZE, AVERAGING AROUND 25 EMPLOYEES, WITH ONLY ABOUT TWENTY FIRMS HAVING OVER ONE HUNDRED WORKERS. VENEZUELAS ARE VARY FASHION AND BRAND-NAME CONSCIOUS AND FREELY ON THE LATEST FASHIONS IN CLOTHING. THUS, THE INDUSTRY MUST POSSESS A HIGH DEGREE OF FLEXIBILITY AND INDIVIDUAL PRODUCTION RUNS ARE RELATIVELY SHORT, ESPECIALLY SINCE THE POPULATION OF ONLY ELEVEN MILLION CAN ABSORB ONLY LIMITED NUMBERS OF A SPECIFIC MODEL. MOST GARMENT MANUFACTURERS UTILIZE FOREIGN DESIGNS AND TRADE MARKS UNDER LICENSING AGREEMENTS. THERE APPEARS TO BE NO SUBSTANTIAL FOREIGN CAPITAL INVESTED IN THE GARMENT INDUSTRY WHICH, HOWEVER, DOES SEEM TO BE DOMINATED BY ENTREPRENEURS WHO WERE NOT BORN IN VENEZUELA.

3. THE TOTAL NUMBER OF COMPANIES IN THE INDUSTRY APPEARS TO HAVE BEEN STABLE DURING THE LAST FEW YEARS. WHILE THE MINISTRY OF DEVELOPMENT REGISTERED IN 1976 NINE EXPANSION PROJECTS WITH AN INVESTMENT OF BS.9MILLION (US\$1 EQUAL BS4.30) AND TWENTY-TWO NEW PROJECTS WITH A PLANNED INVESTMENT OF BS.17MILLION AND GENERATING 1,213 JOBS, INDUSTRY SOURCES CLAIM THAT ABOUT THE SAME NUMBER OF FIRMS HAVE GONE OUT OF BUSINESS. EVEN THE LARGER MANUFACTURERS ARE NOT EXPANDING THEIR FACILITIES, BUT DO APPEAR TO BE INTERESTED IN INCREASING PRODUCTION BY APPLYING MORE MODERN METHODS. THUS, MARKET UNCLASSIFIED

UNCLASSIFIED

PAGE 03 CARACA 02900 01 OF 02 291548Z

GROWTH IS BEING ABSORBED MORE BY MODERNIZATION AND IN-PLANT MEASURES THAN BY NEW PLANT INSTALLATIONS. THE GARMENT INDUSTRY REPORTED A VALUE OF PRODUCTION OF BS.1.2 BILLION IN 1976. THIS FIGURE IS PROBABLY TOO LOW AND THE MINISTRY OF DEVELOPMENT STATED THAT HUNDREDS OF SMALL ENTERPRISES FAILED TO REPORT. NO INFORMATION IS AVAILABLE, AND WOULD BE DIFFICULT TO OBTAIN, ON THE PRODUCTION VOLUME OF THOUSANDS OF INDIVIDUAL SEAMSTRESSES WHO IN SPITE OF THE VAVAILABILITY OF A CONSIDERABLE VARIETY OF FEMALE OUTWEAR, STILL CONTINUE TO BE A MARKET FORCE, HOWEVER, THEY DO NOT CONSTITUTE A POTENTIAL MARKET FOR HIGH-SPEED MACHINES. SOME OF THEM, HOWEVER, DO HAVE A FEW EMPLOYEES AND UTILIZE SO-CALLED SEMI-PROFESSIONAL SEWING MACHINES.

4. THERE IS NO DOMESTIC MANUFACTURE OF INDUSTRIAL SEWING MACHINES. IMPORT DUTIES ARE SET AT ONE PERCENT AD VALOREM CIF FOR MACHINES WITHOUT STANDS AND TABLES, WHICH ARE NORMALLY MANUFACTURED LOCALLY. WITH TABLE OR STAND, THE DUTY APPLICABLE IS 80 PERCENT. THE LAST FULL-YEAR IMPORT STATISTICS AVAILABLE ARE FOR 1975. THESE SHOW TOTAL IMPORTS OF INDUSTRIAL MACHINES WITH TABLE AND STANDS AT \$106,261, WITH THE US HAVING 50PERCENT OF THE MARKET SHARE AND WEST GERMANY 28.5PERCENT. IMPORT OF MACHINES WITHOUT STAND OR TABLE AMOUNTED

TO \$4,875,938 WITH THE US HAVING 36.3PERCENT, WEST GERMANY 34.7 PERCENT, JAPAN 12.4 PERCENT, AND ITALY 9.2 PERCENT. ACCORDING TO FI-450, US EXPORTS OF ALL TYPES OF SEWING MACHINES WAS \$2.8MILLION IN 1977. DISTRIBUTORS REPORT THAT THE MARKET FOR HIGH-SPEED SOPHISTI

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CATED MACHINES IS EVENLY SPLIT BETWEEN GERMAN AND US MANUFACTURERS, WHILE MACHINES OF LOWER SPEED OR A LOWER DEGREE OF COMPLEXITY ARE MAINLY SUPPLIED BY JAPAN, ITALY, GREAT BRITAIN AND SPAIN. APPARENTLY, GERMAN AND US MANUFACTURERS ARE NOT ABLE TO COMPETE PRICE-WISE FOR THESE LESS EXPENSIVE MACHINES.

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PAGE 01 CARACA 02900 02 OF 02 282308Z

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R 282010Z MAR 78

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1735

UNCLAS SECTION 2 OF 2 CARACAS 2900

5. THE EMBASSY HAS BEEN ABLE TO LOCATE APPROXIMATELY 25 DISTRIBUTORS

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THE FOLLOWING BRAND NAMES COULD BE IDENTIFIED: AMF, SINGER, UNION SPECIAL, COBBLE, FISHBAIN, SUPREME, US BLIND STITCH, WINSTON, REFREY, MERROW, BROAD STREET, PFAFF, ADLER, ANKER, DURKOPP, WOLF, PURITAN, AUKI, NECCHI, BERLETTI, BERNINA, YAMATO, ALFA, HUSQUARNA, ELECTRA AND ZENITH. ALL IMPORTER-DISTRIBUTORS OFFER SERVICE AND PARTS, AND ACCORDING TO THE GARMENT INDUSTRY THIS APPEARS TO BE A PREREQUISITE FOR SELLING EQUIPMENT. SALES ARE MADE ON THE BASIS OF UP TO 12-MONTH TERMS. SOME DEALERS ACCEPT USED MACHINES AS TRADE-INS FOR UP TO THE VALUE OF 30 PERCENT OF THE SALE OF NEW MACHINE AND THE MARKET FOR USED MACHINES IS REPORTED TO BE BRISK.

6. THE OUTLOOK FOR THE MARKET OF AUTOMATIC, HIGH-SPEED GARMENT INDUSTRY MACHINES CAN BEST BE CHARACTERIZED AS STEADY BUT NOT INCREASING. THE NUMBER OF ENTERPRISES PRODUCING ITEMS SUITABLE FOR LARGE PRODUCTION RUNS, SUCH AS SHIRTS, SOME UNDERWEAR, LOW-PRICED SIMPLE DRESSES AND CHILDREN'S WEAR, IS LIMITED. PRODUCTION BREAKS BECAUSE OF FREQUENT CHANGES IN DESIGNS AND EVEN IN PRODUCTS (FROM SHIRTS TO BLOUSES TO NIGHT GOWNS IN ONE PRODUCTION LINE, FOR INSTANCE) ARE FREQUENT AND HIGH-EFFICIENCY MACHINES ARE THEREFORE NOT THAT IMPORTANT. IN ADDITION, THERE IS A RELUCTANCE TO BUY EXPANSIVE, SOPHISTICATED EQUIPMENT GIVEN THE SCARCITY OF TRAINED

OPERATORS AND HIGH TURNOVER RATE FOR UNSKILLED LABOR. ALSO,  
THE GARMENT INDUSTRY COMPLAINS ABOUT SLOWNESS IN RESPONSE TO SERVICE  
CALLS AND GENERALLY SEEMS TO FEEL THAT LESS COMPLICATED MACHINES  
ARE LESS APT TO BREAK DOWN. ON THE OTHER HAND, LARGER ENTERPRISES  
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PAGE 02 CARACA 02900 02 OF 02 282308Z

ARE INTERESTED IN MODERN MACHINES, PARTLY BECAUSE OF THE  
DIFFICULTY OF OBTAINING AND RETAINING LABOR AND PARTLY BECAUSE  
THESE FIRMS HAVE SPECIALIZED IN ITEMS USITABLE FOR LONG-RUN MASS  
PRODUCTION. US MACHINES APPEAR TO HAVE AN EXCELLENT REPUTATION  
BUT MUST COMPETE WITH GERMAN EQUIPMENT. THE OTHER PRODUCING  
COUNTRIES ARE NOT GENERALLY CONSIDERED A GREAT THREAT ON THE  
MARKET FOR SOPHISTICATED EQUIPMENT.

7. EMBASSY HOPES YOU FIND ABOVE INFORMATION COMPREHENSIVE AND  
RESPONSIVE. PRESENT RESOURCES OF POST ARE SUCH THAT MORE DE-  
TAILED MARKET RESEARCH ANALYSIS, IF REQUIRED BY THE SEWING  
MACHINE INDUSTRY, WOULD HAVE TO BE PREPARED BY A MARKET RESEARCH  
CONTRACTOR.

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